



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

WENDY L. WATANABE
CHIEF DEPUTY

November 19, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *[Signature]*
Auditor-Controller

SUBJECT: **GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA CONTRACT –
A COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT
ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Goodwill Industries of Southern California (Goodwill or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) program provider.

Background

CSS contracts with Goodwill, a non-profit co-operative association to provide and operate the WIA Adult, Dislocated Worker, Adult Special Needs and Youth Programs. The WIA Adult, Dislocated Worker and Adult Special Needs Programs assist individuals obtain employment, retain their jobs and increase their earnings. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. Goodwill's offices are located in the First and Fifth Districts.

Goodwill is compensated on a cost reimbursement basis. Goodwill's contract was for \$1,152,777 for Fiscal Year 2006-07.

"To Enrich Lives Through Effective and Caring Service"

Purpose/Methodology

The purpose of the review was to determine whether Goodwill complied with its contract terms and appropriately accounted for and spent WIA funds in providing services to eligible participants. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

Goodwill inappropriately billed CSS for unsupported and unallowable expenditures. Specifically, Goodwill:

- Billed CSS \$7,197 for salaries paid to six individuals not assigned to the WIA programs. Subsequent to our review, Goodwill reallocated the \$7,197 in salaries to the correct funding sources.
- Billed CSS \$206 in unsupported payroll expenditures. Specifically, the timecards for two employees did not support the hours billed. Subsequent to our review, Goodwill provided timecards to support the \$206 payroll expenditures.
- Over allocated \$659 in shared costs to the WIA program. In November 2006, Goodwill allocated 100% of the security staff's expenditures to the WIA program. However, the Employment Development Department occupied approximately 45% of the facility Goodwill currently leases.
- Billed CSS \$3,429 in unsupported and unallowable expenditures.
- Charged CSS \$1.57 per square foot for a facility it currently leases for \$1.49 per square foot, resulting in an over allocation of \$2,082. Subsequent to our review, Goodwill reallocated the expenditure to the correct programs.
- Did not maintain supporting documentation for \$2,293 billed to CSS for postage and supportive services provided to WIA participants. Subsequent to our review, Goodwill repaid the \$2,293.
- Did not maintain supporting documentation for \$700 billed to CSS for a staff appreciation luncheon. Subsequent to our review, Goodwill provided additional documentation to support \$312 of the \$700 billed to CSS for the staff appreciation luncheon.
- Billed CSS \$1,136 for unsupported and unallowable travel expenditures. In addition, the travel expenditures were not approved in advance as required by the Agency's travel policy.

Further, Goodwill did not accurately report the program activities for six (15%) of the 40 Adult, Dislocated Worker, Adult Special Needs and Youth participants on the Job Training Automation system. Goodwill also did not conduct a criminal record clearance for one (20%) of the five employees sampled and copies of the employees' driver's licenses, proof of automobile insurance and/or a signed confidentiality agreement were not maintained in four (80%) of the five employees' personnel files sampled.

Details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with Goodwill and CSS on September 14, 2007. In their attached response, Goodwill concurred with our findings and recommendations. We will follow-up our recommendations during next year's monitoring review. We thank Goodwill for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC
Attachment

- c: William T Fujioka, Chief Executive Officer
Cynthia Banks, Director, Department of Community and Senior Services
Douglas H. Barr, President and CEO, Goodwill Industries of Southern California
Teri Kelsall, Vice President of Workforce & Career Development, Goodwill
Industries of Southern California
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAMS
GOODWILL INDUSTRIES OF SOUTHERN CALIFORNIA
FISCAL YEAR 2006-07**

ELIGIBILITY

Objective

Determine whether Goodwill Industries of Southern California (Goodwill or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for 40 (ten adults, ten dislocated workers, ten adults with special needs and ten youth) of the 251 participants that received services from July 2006 through February 2007 for documentation to confirm their eligibility for WIA services.

Results

All 40 participants met the eligibility requirements for the WIA programs.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether Goodwill provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 40 (16%) participants that received services during July 2006 through February 2007. We also interviewed 12 participants to confirm the services Goodwill billed to the Community and Senior Services (CSS) were provided.

Results

The 12 program participants interviewed stated that the services they received met their expectations. However, Goodwill did not complete the Individual Employment Plans (IEP) for three (10%) of the 30 participants sampled. The IEP is an on-going plan jointly developed by the participant and the case manager that identifies the participants' employment goals, achievement objectives and the services needed to achieve their employment goals. This finding was also noted in the prior year's monitoring report.

Goodwill also did not accurately report the program activities for six (15%) of the 40 program participants on the Job Training Automation (JTA) system. The JTA system is used by the State of California Employment Development Department (EDD) and the Department of Labor to track WIA participant activities. This finding was also noted in the prior year's monitoring report.

In addition, Goodwill did not maintain adequate documentation to support the supportive services provided to two (5%) of the 40 program participants. We could not determine the amount of supportive services provided to the participants. This finding was also noted in the prior year's monitoring report.

Subsequent to our review, Goodwill completed the IEP for the three participants, updated the JTA system to accurately reflect the six participants' program activities and provided documentation to support the supportive services provided to one participant. Goodwill indicated that the other participant did not receive services and the JTA system was incorrectly coded. Goodwill will need to submit a request to CSS to correct the activity code in the JTA system.

Recommendations**Goodwill management:**

- 1. Ensure that staff complete the Individual Employment Plans for Adult, Dislocated Worker and Adult Special Needs participants.**
- 2. Ensure that staff accurately update the Job Training Automation system to reflect the participants' program activities.**
- 3. Ensure that staff maintain appropriate documentation to support the supportive services provided to the participants in the participants' case files.**
- 4. Submit a request to CSS to correct the Job Training Automation system to accurately reflect the participant's participation in the program.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed Goodwill's bank reconciliation for February 2007.

Results

Goodwill maintained adequate internal controls to ensure that revenue is properly recorded and deposited in a timely manner.

Recommendation

There are no recommendations for this section.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether the program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 203 (62%) of the 303 non-payroll expenditure transactions billed by the Agency for October and December 2006, totaling \$136,615.

Results

Generally, Goodwill's expenditures were allowable, properly documented and accurately billed. However, Goodwill over charged CSS \$2,565. Specifically, Goodwill:

- Billed \$1.57 per square foot for the facility it currently leases instead of the rate that the Agency is currently paying of \$1.49 per square foot. As a result, Goodwill over charged CSS \$2,082.
- Billed CSS \$483 for non-WIA related travel expenditures.

According to Agency personnel, Goodwill did not overbill CSS but incorrectly allocated the expenditures. Subsequent to our review, Goodwill reallocated the expenditures to the correct programs. Similar findings were noted in the prior year's monitoring report.

Recommendations

Goodwill management:

- 5. Ensure that the expenditures are accurately allocated to the appropriate program.**
- 6. Only bill CSS for actual program expenditures.**

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations. In addition, to determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Goodwill did not always comply with all County contract requirements. Specifically, Goodwill did not document their monitoring activities of their subcontractor or report the results of their programmatic monitoring to the subcontractor's management to ensure that required program services were provided to the participants. A similar finding was also noted in the prior two year's monitoring report.

Recommendation

- 7. Goodwill management document their monitoring activities performed on the subcontractor and report their results to the subcontractor's management.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether Goodwill's fixed assets and equipment purchases made with WIA funds are used for the WIA program and are safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's equipment inventory listing. In addition, we performed an inventory and reviewed the usage of 15 (9%) of the 158 items purchased with WIA funds.

Results

Goodwill used the equipment purchased with WIA funding for the WIA program. In addition, the items were appropriately safeguarded.

Recommendation

There are no recommendations for this section.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll is appropriately charged to the WIA program. In addition, determine whether personnel files are maintained as required.

Verification

We traced the payroll expenditures for 17 employees totaling \$34,174, to the payroll records and time reports for December 2006. We also interviewed two staff assigned to the WIA program and reviewed personnel files for five staff assigned to the WIA program.

Results

Goodwill overbilled CSS:

- \$7,197 for salaries paid to six individuals not assigned to the WIA programs.
- \$206 in unsupported payroll expenditures. Specifically, the timecards for two employees did not support the hours billed to CSS.

- \$659 in shared costs that they over allocated to the WIA program. In November 2006, Goodwill allocated 100% of the security staff's expenditures. However, EDD occupied approximately 45% of the facility Goodwill currently leases.

Subsequent to our review, Goodwill reallocated \$7,197 in salaries to the correct funding sources and provided timecards to support the \$206 payroll expenditures. Similar findings were noted in the prior year's monitoring report.

Goodwill also did not conduct a criminal record clearance for one (20%) of the five employees sampled. In addition, Goodwill did not maintain copies of the employees' driver's licenses, proof of automobile insurance and/or a signed confidentiality agreement in the employees' personnel files for four (80%) of the five employees sampled.

Recommendations

Goodwill management:

8. **Repay CSS \$659.**
9. **Request for reimbursement based on actual payroll expenditures incurred for the WIA programs.**
10. **Ensure that the expenditures are adequately supported.**
11. **Conduct criminal record checks on all employees.**
12. **Ensure that the required documentation are maintained in the employees' personnel files.**

COST ALLOCATION PLAN

Objective

Determine whether Goodwill's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in October and December 2006 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

Results

As previously indicated and recommended, Goodwill management ensure that the payroll expenditures are allocated to the appropriate programs.

In addition, Goodwill did not appropriately allocate the lease expenditures to WIA Adult Programs. Specifically, Goodwill incorrectly allocated \$11,000 in lease expenditures for the WIA Adult Special Need Program to the WIA Adult and Dislocated Worker Programs. Subsequent to our review, Goodwill reallocated the \$11,000 in lease expenditures to the correct program.

Recommendation

Refer to Recommendations 5.

CLOSE-OUT REVIEW**Objective**

Determine whether the Agency's Fiscal Year (FY) 2005-06 final close-out invoice reconciled to the Agency's financial accounting records.

Verification

We traced the Agency's FY 2005-06 general ledger to their final close-out invoice for FY 2005-06. We also reviewed a sample of expenditures incurred in May and June 2006.

Results

Goodwill overbilled CSS \$4,129. Specifically, Goodwill:

- Did not maintain supporting documentation for \$2,293 billed to CSS for postage and supportive services provided to WIA participants.
- Did not maintain supporting documentation for \$700 billed to CSS for a staff appreciation luncheon.
- Billed CSS \$1,136 for unsupported and unallowable travel expenditures. Specifically, Goodwill billed CSS for two employees to attend an awards ceremony and stay two nights at an Irvine hotel. According to Agency personnel, the awards ceremony was related to the WIA program. However, the Agency was unable to provide documentation to support the relationship between the awards ceremony and the WIA programs. In addition, the travel expenditures were not approved in advance as required by the Agency's travel policy and the justification for the over-night stay was not documented.

Subsequent to our review, Goodwill repaid CSS \$2,293 and provided additional documentation to support \$312 of the \$700 billed to CSS for the staff appreciation luncheon.

Recommendations**Goodwill management:**

- 13. Repay CSS \$1,524.**
- 14. Ensure that expenditures are allowable and adequately documented.**

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

Verification

We verified whether the outstanding recommendations from FY 2005-06 monitoring review were implemented. The report was issued on December 7, 2006.

Results

The prior year's monitoring report contained 19 recommendations. At the time of our review, Goodwill implemented eight recommendations. As previously indicated, the findings related to Recommendations 1, 2, 3, 4, 5, 6, 8 and 9 contained in this report were also noted during the prior year's monitoring review. The remaining three recommendations required the Agency to repay CSS \$5,452.

Subsequent to our review, Goodwill repaid CSS the \$5,452. Goodwill management indicated that the outstanding recommendations would be implemented in FY 2007-08.

Recommendation

- 15. Goodwill management implement the outstanding recommendations addressed in this and the prior year's monitoring report.**



October 10, 2007

John Forsythe
Honorary Chair
Board of Governors

**Board of Directors
Officers**

Chair
David J. McQuitty
Pittsburgh Pictures Corp.

First Vice Chair and
Corporate Compliance Officer
James D. Hickon
Bank of Santa Clara

Second Vice Chair
Morgan W. St. John

Treasurer
Donald F. Grumrine
Patterson & Grumrine

Secretary
Kathleen C. Johnson, Esq.

Assistant Secretary
Sandra S. Williams

President & CEO
Douglas H. Barr, MSW

Mr. J. Tyler McCauley
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Suite #51
Alhambra, CA 91803

Dear Mr. McCauley:

Thank you for your draft report of the findings related to your department's fiscal and administrative review of Goodwill Southern California ("Goodwill") WIA program in March 2007. We appreciate your comments to help us further improve our processes. We have included our comments to your recommendations below:

BILLED SERVICES/CLIENT VERIFICATION

Recommendation:

1. Ensure that staff complete the IEP for Adult, Dislocated Worker and Adult Special Needs.
 - Goodwill Director and Program Management will ensure timely completion of IEP on a monthly basis via round table file reviews.
2. Ensure that staff accurately update the JTA system to reflect the participants' program activities
 - Goodwill Director and Program Management will ensure timely entry of activities into the JTA system on a monthly basis via round table file reviews and review of JTA reports.
3. Ensure that staff maintain appropriate documentation to support the supportive services provided to the participants in the participants' case files.
 - Goodwill Director and Program Management will ensure appropriate supportive service documentation is in the participant files via monthly round table file reviews.
4. Submit a request to DCSS to correct the activity code in the JTA system to accurately reflect the participants' program activities.
 - This request has been forwarded to DCSS to correct the improper coding relative to a supportive service activity code.

Transforming Lives Through the Power of Work

342 North San Fernando Road • Los Angeles, California 90031 • (323) 223-1211 • FAX (323) 343-9927 • www.goodwillisocal.org

EXPENDITURES/PROCUREMENT

Recommendation:

5. Ensure that the expenditures are accurately allocated to the appropriate program.
 - Goodwill has implemented an allocation process for shared costs related to the Central San Gabriel Work Source Center and will ensure greater reviews over the allocation process.
6. Request for reimbursement based on actual program expenditures.
 - Goodwill does request for reimbursement for actual expenditures within a program year and for reimbursement of occupancy related costs. The error was related to the allocation process vs. the actual expenditure.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Recommendation:

7. Goodwill management document the monitoring performed on the subcontractor and report the findings to the subcontractor's management to ensure that the program services are being provided to program participants as required.
 - As recommended in the prior year audit, Goodwill conducted a fiscal review of the subcontractor working with the program. With respect to the programmatic review, Goodwill did conduct monthly round table reviews of participant files. However, Goodwill agrees that Goodwill management should provide written communication to the subcontractor management as it relates to the program review of the audits which we have corrected and implemented

Recommendation:

8. Repay DCSS \$659
 - Goodwill agrees to repay \$659.
9. Request for reimbursement based on actual payroll expenditures incurred for the WIA Programs.
 - Goodwill has corrected this allocation error and ensures that future requests for reimbursement exclude amounts paid by 3rd parties.
10. Ensure that the expenditures are adequately supported and allocated to the appropriate programs.
 - Goodwill has implemented an allocation process for shared costs related to the Central San Gabriel Work Source Center and will increase management review of the allocation process.
11. Conduct a criminal record checks on all employees.
 - Goodwill does perform a criminal record checks on all employees as a standard process and no employee would be hired without a

background check. Information for one of the individuals selected was misplaced. However, Goodwill is confident that background checks were performed and that the individual met the required standards. This individual is no longer with the program.

12. Ensure that the required documentation is maintained the employees' personnel files.

- Goodwill's HR department is ensuring that Driver's License, Auto Insurance, criminal background checks and confidentiality agreements are documented in the employee files.

CLOSE-OUT REVIEW

Recommendation:

13. Repay DCSS \$1,524

- Goodwill agrees to repay the County \$1,524.
 - A luncheon was set for the employees and partners of the Central San Gabriel Work Source Center for Continuous Quality Improvement. Goodwill accrued \$700. The actual expenditure was \$311.87. Goodwill agrees to repay \$388.13.
 - The overnight travel expense of \$1,136 was related to a CAPE (California Award for Performance Excellence) award's ceremony and conference in conjunction with the Certification of the Work Source Center. While the expense was appropriate, Goodwill was unable to locate the agenda for the event and as such, agrees to repay the county \$1,136 for the travel expenditure since the travel was also not approved in advance nor were we able to obtain subsequent approval due to the lack of documentation. Goodwill has tightened its travel policies subsequent to the event.

14. Ensure that expenditures are allowable and adequately documented.

- Goodwill has corrected its policies and procedures as well as enhanced management reviews as noted above.

PRIOR YEAR FOLLOW-UP

Recommendation:

15. Goodwill management implement the outstanding recommendations address in this report.

- As noted in the above findings, these recommendations have been implemented and errors are due to new staffing and volume of transactions. Goodwill management will continue to enhance its management reviews and trainings on the billings to ensure that billings are more accurate and supportable.

Please feel free to call Angela Argote with any questions at (323)223-1211 ext 2385 or myself at 323-539-2059. Again, thank you for your comments and we appreciate working with the auditors from your office.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lily'.

Lily N Yee
Controller